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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000327

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DEPARTMENT FOR EUR/SNEC AND EB/ESC  
USDOE FOR FE - SWIFT AND OS - WILLIAMSON

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SUBJECT: BEYOND BTC - AZERBAIJAN SEEKS FURTHER ROLE FOR  
CASPIAN ENERGY IN EUROPE

REF: BAKU 305

Classified By: Ambassador Reno L. Harnish, III, reasons 1.5 (b), (d) and (e).

11. (C) SUMMARY. Azerbaijan's MFA, in cooperation with State Oil Company SOCAR, sponsored a "High-Level Meeting on the Issues of Energy Security of Europe" on February 24. Representatives of several European countries, the European Commission, and Iran attended. Although the subject matter was not new to Baku-based energy experts, the conference showed Azerbaijan, Georgia and Ukraine interest in bringing about new transportation corridors for Caspian energy to Europe besides the BTC oil pipeline and the SCP gas pipeline. Potential European customers and the European Commission delegate expressed positive interest. The next step, and the challenge, will be to bring industry into this discussion and move to practical work. The GOAJ indicated its interest in following up with another meeting during the Caspian Oil and Gas Show in June. END SUMMARY.

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ATTENDEES  
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12. (C) Azerbaijan's MFA, in cooperation with State Oil Company SOCAR, sponsored a "High-Level Meeting on the Issues of Energy Security of Europe" on February 24. The representatives at the conference, several at the deputy minister level, were from Austria, Bulgaria, France, Georgia, Germany, Greece, Iran, Italy, Kazakhstan, Moldova, Poland, Romania, Turkey, the United Kingdom, Ukraine and the United States. A European Commission representative was also present. The Kazakhstan delegation included several representatives from KazMunaiGaz (KMG) and KMG's executive director, Kayirgeldy Kabyldin. The Greek representative was accompanied by two officials from DEPA, the Public Gas Corporation of Greece. The Georgian, Ukrainian and Moldovan delegations included members of the Energy Ministries of those countries, and Austria was represented by a department head from the MFA (the Austrian representative did not indicate if he was attending in Austria's EU capacity). Turkmenistan was invited but declined to attend. Deputy Foreign Minister Araz Azimov and senior SOCAR official Elshan Nazirov chaired the conference.

13. (C) The two Iranian representatives were silent throughout

the conference. One of them occasionally photographed the screen on which the conference's PowerPoint presentations were being projected. The Greek DCM later said that, when she had asked the GOAJ why the Iranians had been invited, the GOAJ had pleaded a need for "balance." According to the British Ambassador, an earlier invitation list for this conference had excluded the United States, Britain and most of the EU members. The Greek DCM said that the guest list was changed after the EU and others complained, on the grounds that they are the markets Caspian energy is trying to reach. The British Ambassador reported a similar interaction.

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ALL URGE DIVERSIFICATION...  
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¶4. (C) The conference began with both the MFA and SOCAR giving short presentations emphasizing the oil and gas reserves of the Caspian region in general and of Azerbaijan in particular. The presentations did not include any new information. The floor was then given to KMG executive Kabyldin who gave a presentation on Kazakhstan. Kabyldin listed several energy projects in which Kazakhstan is involved, including CPC and the oil pipeline to China, but provided few details. Interestingly, the Kashagan-BTC and Tengiz-BTC projects were lumped together under the obsolete name "Aktau-BTC," even though the Kashagan project has long since selected Kurik, not Aktau, as its port. Kabyldin said that the cross-Caspian Inter-Governmental Agreement (IGA) for this project had already been negotiated, although post understands that Azerbaijan was just presented with a new draft IGA that is eliciting diverse opinion among Baku policy makers. Interestingly, Kabyldin said that KMG's vision for

BAKU 00000327 002 OF 003

the future is to transport both oil and gas to international markets, although his only specific mention of gas was when he noted that Kazakhstan might send gas to China.

¶5. (C) The Ukrainian delegate stressed the importance of Caspian and Central Asian energy resources and argued for both diversity of supplies and of transit routes. This was the general theme of everyone who spoke: the Brody-Odessa, AMBO (Albania-Macedonia-Bulgaria), Burgas-Alexandroupolis, Nabucco and Samsun-Ceyhan pipeline projects were all briefly mentioned. In all cases, the sentiment seemed to be not to favor one pipeline over another but to try to build as many of them as possible to support diversity of transit routes. "Everyone wants multiple corridors," said the Ukrainian delegate.

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...U.S. AND U.K. ALSO STRESS GOVERNANCE  
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¶6. (C) Ambassador stressed that the United States supports diversification of Europe's energy supplies and transit routes, noting the USG's support for the BTC and SCP projects. Demand in Europe will only increase and cannot be met by domestic supplies, he added. Markets will carry the main burden of justifying any energy transportation projects, but governments need to help, for example by facilitating IGAs, HGAs, and conditions that minimize political risk. Ambassador noted that some policies, like the EU's anti-monopoly policy that may end up effectively barring the import of Shah Deniz gas, need to be examined carefully. Ambassador also pointed out that good governance and revenue management are key.

¶7. (C) The British Ambassador emphasized similar themes, adding that Britain is a consumer, transporter and producer of energy and looks at the issue from all three perspectives. The British Ambassador argued that energy security means both security of supply and security of demand. He noted the participation of Azerbaijan in EITI and said that effective

management of energy revenues is the long-term way to manage political risk.

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AUSTRIA, EU RECEIVE THE MESSAGE  
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¶18. (C) The Austrian delegate cited the need for a new energy policy for Europe, explicitly mentioning Ukraine's difficulties with Russia and quoting Churchill's famous remark that "safety and certainty in oil lie in variety alone." He said that Europe needs links to the Caspian. The European Commission representative echoed this and said that the EU is now "very aware" of Caspian energy resources. The EU is developing a comprehensive energy policy and will likely present it in March.

¶19. (C) At the end of the program, the MFA presented a "concept paper" which restated most of what was said during the conference: that European demand for energy is growing, that the Caspian region has energy resources, and that there is an opportunity for Caspian energy resources to be part of the diversification of European energy supplies. Deputy Foreign Minister Azimov suggested that the group meet again during the Caspian Oil and Gas Show (COGS) in Baku in June, and that there be another session in Kazakhstan in November. Although a session had been scheduled for the next morning, by mutual consensus it was canceled. The political statement initially included in the agenda was not discussed.

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COMMENT  
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¶10. (C) Industry was almost entirely absent. However, the conference showed that despite Azerbaijan's perceived inaction on energy policy (reftel), at least some elements of the GOAJ are continuing to push the idea of bringing Caspian energy to European and world markets beyond the current plans

BAKU 00000327 003 OF 003

for the BTC oil pipeline and the SCP gas pipeline. Privately, Araz Azimov noted that he had hoped a reminder about Caspian energy would resonate at this moment, when Europe is dealing with the aftermath of Ukraine's problems with Gazprom. The reactions of the Austrian and EC representatives would seem to indicate some success. We should encourage Azerbaijan to follow up with this during COGS 2006 and to reach out to industry.  
HARNISH